

## **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 09**

### **Policy 09 - Year-end Recognition of Tax Revenue for Prior Fiscal Year and Deferral of Certain Types of Revenue Definitions and Rules of Procedure**

#### **Component 01 - Basis for Authority and General Statement**

##### **Section 01 - Applicable State Law -**

**§09-01-101: Accounting Powers Granted By State Law** - According to T.C.A. 4-3-1007, the Department of Finance and Administration "shall have power and shall be required: (1) to maintain a system of general accounts embracing all the financial transactions of state government; ...

(10) to exercise the rights, powers and duties (except the power to collect taxes), conferred by law upon the comptroller of the treasury ... insofar as these provisions relate to financial administration and general accounting control of the state government, involving the keeping of general accounts, ...[and] (11) in consultation with the comptroller of the treasury, to establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control ..."

##### **Section 02 - General Statement**

**§09-01-102: Accrual and Deferral of Revenue** - The revenue accrual process is a basis of accounting in which revenue is recognized by a government when it has an enforceable claim to the revenue. The deferral process is a basis of accounting for revenues received in advance of the fiscal year to which they apply. Such prepayments should be recorded as deferred revenues and recognized in subsequent periods.

##### **Section 03 - General Rules and Applicability**

**§09-01-301: General Rule** - All receipts of tax revenues for which the state or its agencies has an enforceable claim shall be recognized as revenue of the prior fiscal year if that revenue is measurable and is available to pay expenditures for the prior fiscal year. Those revenues which are appropriately deferred, in whole or in part, shall be recorded as revenues of a future period or periods. These items of revenues shall be recorded in the accounting records in accordance with this Policy Statement 09, except as expressly provided in the various statements of policy and procedure issued by the Department of Finance and Administration, or in the law of the State of Tennessee as cited in the Tennessee Code Annotated and its supplements.

Policy statement 09 applies to revenues resulting from taxation and from other non-exchange transactions and events, and to the interest and penalties attributable thereto.

§09-01-302: Applicability - All state departments, agencies, boards, and commissions that collect tax revenue or levy licenses, fees, or permits for the State of Tennessee according to statutory authority given to them are required to comply with this Policy Statement 09.

Section 04 - Effective Date and Transition

§09-01-401: Effective Date and Transition - This Policy Statement 09 shall become effective upon issuance, and shall be applied to fiscal year ending June 30, 1991 and to all future years. .

Component 02 - Definitions and Rules of Procedure for the Recording of Accrued Tax Revenues, Deferred Revenues, and the Related Accounts

Section 01 - Definitions and Rules of Procedure Applicable in Recording the Receipt of Tax Revenue During the Accrual Period.

§09-02-101: Definitions - The following definitions apply in the recording of accrued tax revenue and deferred revenue received during an accounting period.

- A. Susceptibility to Accrual - According to the codification of the Governmental Accounting Standards Board "revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is when they become both *measurable* and *available* to finance expenditures of the fiscal period." Furthermore, " 'Available' means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period." All tax revenue shall be susceptible to accrual if it is attributable to the prior fiscal year by reason of taxpayer liability to the state or its agencies, has been demanded by the state as evidenced by a due date at fiscal year-end or within two months after fiscal year-end and for which receipts of payment occur by August 31.
- B. Availability for Accrual - Revenue which is available for accrual shall be that revenue susceptible to accrual and for which the demand has been acknowledged by virtue of cash received within two months of the end of the fiscal year.
- C. Accrual Period - The accrual period shall be through August 31 for cash receipts of taxes attributable to the prior year as described in A. above.
- D. Deferred Revenue - Deferral of revenues is the delay of recognition of some or all of the amount of the revenue when collected. A portion of the revenue which is applicable to one or more future periods is deferred for recognition in the period or periods to which it applies. In governmental accounting, deferral of revenue may also include certain revenues which are measurable but will not be available to pay

the bills of the prior period (e.g., delinquent taxes). In that case, a portion of the delinquent taxes receivable must be recognized as deferred revenue. Revenues generated by the issuance of licenses, fees, and permits in exchange for services or privileges granted to the payees of these licenses, fees, or permits are not susceptible to accrual. They are recognized as revenue as cash is received.

- E. Revenues From Other Governmental Entities - Certain revenues due to the state from other governmental entities such as federal, county, or municipal governments may be susceptible to accrual if it can be clearly determined that a liability to the state for payment of the revenue exists, the amount of the liability can be determined, and the payment to the state will be received during the accrual period established by this policy statement.
- F. Penalties and Interest for Late Payment of Taxes - Penalties assessed taxpayers due to late payment of taxes or for failure to file tax returns in a timely manner, shall be established in the accounts as revenue of the period in which the penalty is assessed. Interest on delinquent taxes shall be recognized as revenue as it accrues over time. Penalties and interest shall be recorded as revenue of the related tax type and included in the related receivable.

§09-02-102: Rules of Procedure for the Recording of Tax Revenue Susceptible to Accrual - The following procedures for recording tax revenue susceptible to accrual shall apply:

- A. Receipt of Cash for Payment of Taxes Collected in the Accrual Period - At June 30, a receivable shall be established and a credit to Revenue for each type of revenue collected in the accrual period. On July 1, reversing entries shall be made. As revenue is collected in the accrual period, a debit to Cash and credit to Revenue shall be made.
- B. Recording and Receipt of Delinquent Taxes - At June 30, a receivable shall be established for delinquent taxes owed for the prior fiscal year as an amount to be partly accrued and partly deferred. An allowance for uncollectible taxes shall be established.

Revenue for the prior year shall be credited for an amount deemed to be collectible within the accrual period. The balance of the receivable amount shall be credited to Deferred Revenue 19XX. On July 1, Revenue and Deferred Revenue accounts will be reversed. As these receivables are collected during the accrual period, a debit to Cash and a credit to Revenue shall be made. Subsequent to the accrual period, a debit to cash and credit to current year Revenue will be made. Thus, the revenue will be recognized in the period in which it is deemed available to pay expenditures for the appropriate year.

- C. Overpayment of Prior Period Taxes - If, due to a filing error, a taxpayer has paid an amount during the prior fiscal year in excess of the taxes owed for the prior period but files a return before or during the accrual period, the accounting for the overpayment shall be as follows: at June 30, debit Revenue for the amount of overpayment received, credit the accrued liability if the funds are to be returned to the taxpayer, or credit Deferred Revenue if the overpayment is to be applied to a future tax liability of the taxpayer. At July 1, make a reversing entry for these accounts.

### Component 03 - Exceptions

#### Section 01 - Use of Automated Clearing House (ACH)

##### §09-03-101 - General Statement

In 1989, the Legislature authorized a procedure which is to be implemented in 1990 to collect certain tax revenues from designated vendors through Automated Clearing House (ACH), whereby vendors who owe the state large sums for payment of monthly sales taxes can transfer these funds directly to the State Treasury account by electronic funds transfer at the date when the taxes are due. Since such automated transfer is beyond the physical control of the State and the amounts receivable from each vendor using ACH is large and a material amount of the entire sales tax receivable for a period, this exception to Policy Statement 09 is granted in the event that technical problems prevent such transfer during the accrual period.

1. If a tax receivable would normally be transferred by electronic funds transfer in the month of July for taxes which are attributable to the prior year and are susceptible to accrual of prior year revenue, and that tax amount is not transferred into the State Treasury account due to technical errors arising from the transfer process, that amount of revenue may be accrued if the amount is subsequently received within the month of August.
2. If a tax receivable would normally be transferred by electronic funds transfer in the month of July for taxes which are attributable to the prior year and that tax amount is not transferred to the State Treasury account by August 31 due to any willful action of the taxpayer, that revenue will be accounted for as revenue of the current year if received in the current year after August 31. If all or a portion of the tax payment is not received in the current year, a receivable for the amount of taxes owed will be established at current year-end in the same manner as receivables for other delinquent taxes are recorded.

### Component 04 - Approvals

#### Section 01 - Commissioner of Finance and Administration

§09-04-101: Approval of the Commissioner of Finance and Administration - I, David L. Manning, hereby approve of this Policy Statement 9 of the Department of Finance and

Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
David L. Manning, Commissioner  
Department of Finance and Administration

Section 02 - Comptroller of the Treasury  
§09-04-201: Approval of the Comptroller of the Treasury - I, William R. Snodgrass,  
hereby approve of this Policy Statement 9 of the Department of Finance and  
Administration, and as such agree with and authorize actions necessary to implement its  
requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
William R. Snodgrass, Comptroller  
Office of the Comptroller of the Treasury